



Kentucky Higher Education Assistance Authority

Reports

January 11, 2005

Student Benefits from The Student Loan People FY 2003 - FY 2004

Background

The Kentucky Higher Education Student Loan Corporation (KHESLC), also known as The Student Loan People, is a municipal corporation and political subdivision of the Commonwealth and authorized to finance, service, and collect educational loans. The Student Loan People is the state's only nonprofit student loan provider and is governed and led by the same board members and senior leadership as its sister agency, Kentucky Higher Education Assistance Authority (KHEAA).

The Student Loan People provides programs and services with funds generated through the use of tax-exempt bonds to finance student loans. No General Fund appropriations from the Kentucky General Assembly are involved. Revenue is returned to Kentucky students in the form of annual contributions to the state's need-based financial aid programs; free college planning publications; a comprehensive, statewide outreach program; the lowest-cost Federal Stafford Loans for Kentucky students; and student loan interest and principal forgiveness for Kentucky teachers and nurses.

Kentucky Higher Education Assistance Authority

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Kentucky Higher Education Student Loan Corporation

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KHEAA and The Student Loan People do not discriminate on the basis of race, color, national origin, sex, religion, age, or disability in employment or services and provide, upon request, reasonable accommodations to afford individuals with disabilities an equal opportunity to participate in all programs and activities.

This report focuses on the significant benefits to students and efforts to address the state's critical shortage areas of teaching and nursing. With the exception of contributions to the state aid programs, the preponderance of funds used for benefits are restricted by federal law to benefit borrowers who obtained a student loan from The Student Loan People.

Some Kentucky students are not afforded access to the substantial savings described in this report because their institution has chosen not to participate in Student Loan People programs (*see Table 4*).

Purpose of Benefit Programs

After consultation with other state entities to identify the best use of funds based on existing needs and goals of Kentucky, The Student Loan People created a generous set of borrower benefit programs in 2003 to:

- Improve financial access to higher education for the maximum number of students to attend college.
- Help the state reach its goal of increasing the college-going rate by providing the best and lowest cost student loan programs to Kentucky students.
- Reward students for pursuing higher education, remaining in school, and demonstrating a good repayment history.
- Encourage Kentucky students to enter teaching and nursing and provide services in Kentucky upon graduation.
- Increase funding for the state's College Access Program (CAP) and Kentucky Tuition Grant (KTG) Program to help the Commonwealth's financially neediest students.
- Help address growing student indebtedness by reducing the cost of borrowing to pay for higher education.

Reinvesting in Kentucky Students

The Federal Family Education Loan Program (FFELP) is the largest federal student aid program in the nation. Approximately 3/4 of all student aid provided through the U.S. Department of Education (USDE), as well as 3/4 of all aid administered by KHEAA, is in the form of loans. Not surprisingly, many, if not most, students use loans to help pay their higher education costs.

The Student Loan People issue bonds to finance FFELP loans for Kentucky students and makes and services the loans on behalf of USDE. These and other activities generate revenue which The Student Loan People chooses to use to help students pay for college and technical training and to address the occupational needs of the state.

Borrower Benefit Programs

All of the following programs apply to loans held by The Student Loan People—not other lenders.



- 0% origination fee
- 0% insurance fee
- 3.5% credit to original principal
- 0.25% interest rate reduction

All students who obtained a Federal Stafford Loan from The Student Loan People in FY 2004 participated in the BestStart program and were not charged an origination fee by The Student Loan People or an insurance fee by KHEAA. All lenders can charge up to 3% of the loan amount for making a FFELP loan, and guarantors can charge a 1% insurance fee. Since KHEAA and The Student Loan People do not charge the fees, the student could apply the savings to the cost of education.

Diligent borrowers who made their first 30 consecutive payments on time received an automatic 3.5% reduction in the original loan principal. In addition, borrowers who had payments automatically deducted from their checking or savings accounts received a .25% interest rate reduction.



- Interest forgiveness
- 20% loan principal forgiveness

Qualified Kentucky teachers with BestStart loans can receive these repayment benefits. Benefits apply to any loan held by The Student Loan People, including PLUS and Consolidation (except spousal consolidation).

Interest is forgiven at the end of each academic year for each year of service certified at public or nonprofit Kentucky elementary or secondary schools for:

- ❖ Teachers
- ❖ Guidance counselors
- ❖ Librarians

Any interest paid is credited to the loan principal at the end of the fiscal year.

Up to 20% of the loan can be forgiven each year for teachers in the following critical shortage areas at public or nonprofit Kentucky elementary or secondary schools:

- ❖ Special education
- ❖ Math
- ❖ Science
- ❖ English as a Second Language (ESL)

Teachers can eliminate their entire student loan debt by teaching in one of Kentucky's critical shortage areas for five years.



- Interest forgiveness
- 20% loan principal forgiveness

Kentucky nurses with BestStart or PLUS Loans can receive these repayment benefits. With Consolidation Loans, only interest forgiveness applies.

Interest is forgiven at the end of each fiscal year for RNs, LPNs, and LVNs working in Kentucky. Any interest paid is credited to the loan principal at the end of the fiscal year.

Up to 20% of loan principal is forgiven for RNs, LPNs, and LVNs for each year of service in Kentucky.

Nurses can eliminate their entire student loan debt for practicing nursing in Kentucky for five years.

Table 1. Benefits to Students

	FY 2004		Cumulative
	Loans	Savings/Awards	
BestStart for All FFELP Stafford Borrowers	70,000	\$10,072,100	\$14,323,400
Best in Class Forgiveness for Teachers			
■ Interest Forgiveness			
❖ Teachers, Counselors, Librarians	3,360	\$729,200	\$1,591,100
■ Interest and 20% Principal Forgiveness			
❖ Special Education Teachers	3,300	4,657,200	8,205,800
❖ Science Teachers	620	779,400	1,787,700
❖ Math Teachers	770	790,500	1,635,200
❖ ESL Teachers	20	65,000	145,000
Best in Care Forgiveness for Nurses			
■ Interest Forgiveness for Registered Nurses	1,880	\$451,000	\$1,121,500
■ Interest and 20% Principal Forgiveness	230	321,800	322,300
Contributions to State Aid Programs			
■ College Access Program (CAP) Grants		\$1,181,900	\$2,227,600
■ Kentucky Tuition Grants (KTG)		927,200	1,881,500
■ KHEAA Work-Study Awards		890,900	1,890,900
Subtotal for FY 2004 and Since 2003		\$20,866,200	\$35,132,000
KHEAA Waiver of 1% Guarantee Fee Since 1996		\$6,248,100	\$33,252,500
Total Benefits to Students		\$27,114,300	\$68,384,500

Amount of Student Benefits

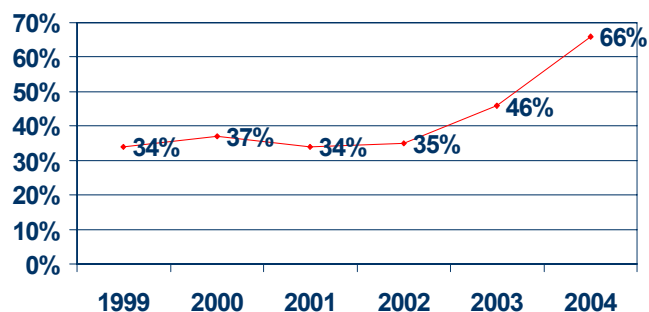
KHEAA and The Student Loan People's benefits have saved students over \$68 million through FY 2004. In addition to the direct benefits to students in *Table 1*, agency-generated funds are also used to pay for administration of the state aid and federal loan programs, allowing all General Fund appropriations to go to students in the form of awards.

The demand for Student Loan People programs and services continues to increase and is driven by several factors.

- Postsecondary education costs are rising at rates well beyond the ability of most families to meet these expenses.
- Students and parents are borrowing more than ever before and are looking for the lowest cost student loans.
- Expanded outreach programs are educating families about higher education opportunities and student financial aid.
- Most Kentucky colleges and universities rely on KHEAA and The Student Loan People for locally accessible services.

Although The Student Loan People's market share increased 31 percentage points (*Table 2*), not all Kentucky students borrow from The Student Loan People and enjoy the benefits.

**Table 2. The Student Loan People
FFELP Market Share in Kentucky**



Student Eligibility by Institution

Almost all Kentucky schools have chosen to participate in FFELP administered by KHEAA and The Student Loan People and can offer the savings. Participating schools are listed in *Table 3*. A small number of schools have chosen to continue participating in the Federal Direct Student Loan Program and do not offer these or comparable benefits. Non-participating schools are listed in *Table 4*. Several schools tried Direct Lending and then returned to FFELP, including Western Kentucky University, the 28 KCTCS institutions, and Sullivan University.

Table 3. Participating Kentucky Schools
(Includes only those schools with primary business operations in Kentucky)

Alice Lloyd College	Louisville Technical Institute
Asbury College	Madisonville Community College
Asbury Theological Seminary	Mayo Technical College
Ashland Community and Technical College	Maysville Community College
Bellarmino University	Mid-Continent University
Berea College	Midway College
Bowling Green Technical College	Mr. Jim's Beauty College
Brescia University	Murray State University
Brown Mackie College, Louisville	Northern Kentucky University
Campbellsville University	Owensboro Community and Technical College
Central Kentucky Technical College	Paducah Technical College
Centre College	Pikeville College
Cumberland College ¹	Prestonsburg Community College
Daymar College	RETS Electronic Institute ²
Eastern Kentucky University	Rowan Technical College
Elizabethtown Community and Technical College	Somerset Community College
Frontier School of Midwifery	Southeast Community College
Gateway Community and Technical College	Southern Ohio College, Ft. Mitchell ³
Georgetown College	Spalding University
Hair Design School, The	Spencerian College
Hazard Community and Technical College	St. Catharine College
Health Institute of Louisville	Sullivan University
Henderson Community College	Thomas More College
Hopkinsville Community College	Transylvania University
Jefferson Community College	Trend Setters' Academy
Jefferson Technical College	Union College
Kentucky Christian University	University of Kentucky College of Dentistry
Kentucky Mountain Bible College	University of Kentucky College of Medicine
Kentucky Wesleyan College	University of Louisville
Lexington Theological Seminary	West Kentucky Community and Technical College
Lindsey Wilson College	Western Kentucky University
Louisville Presbyterian Theological Seminary	

Table 4. Non-Participating Kentucky Schools
(Includes only those schools with primary business operations in Kentucky)

Barrett & Company School of Hair Design	Kentucky State University
Beckfield College	Lexington Community College ⁴
Decker College of Business Technology	Morehead State University
Elizabethtown Beauty School	Motif Beauty Academy
Kaufman Beauty School	PJ's College of Cosmetology
Kentucky Career Institute	University of Kentucky

¹ Now known as University of the Cumberlands.

² Now known as Brown Mackie College, Louisville.

³ Now known as Brown Mackie College, Northern Kentucky.

⁴ Will participate in FFELP in FY 2005-06.